

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
CLERK**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MAGOFFIN COUNTY CLERK

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Magoffin County Clerk's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$20,761 from the prior year, resulting in excess fees of \$23,332 as of December 31, 2009. Revenues decreased by \$208,940 from the prior year and expenditures decreased by \$188,179.

Report Comment:

- The County Clerk's Office Should Strengthen Internal Control Weakness

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	11
COMMENT AND RECOMMENDATION	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles E. Hardin, Magoffin County Judge/Executive
The Honorable Renee Arnett Shepherd, Magoffin County Clerk
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Magoffin County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2010 on our consideration of the Magoffin County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Charles E. Hardin, County Judge/Executive
The Honorable Renee Arnett Shepherd, Magoffin County Clerk
Members of the Magoffin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Should Strengthen Internal Control Weakness

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Magoffin County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 13, 2010

MAGOFFIN COUNTY
 RENEE ARNETT SHEPHERD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

Libraries and Archives Grant	\$	19,811
------------------------------	----	--------

HB 557 - Revenue Supplement		57,376
-----------------------------	--	--------

State Fees For Services		10,501
-------------------------	--	--------

Fiscal Court		11,053
--------------	--	--------

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	512,364
------------------------	----	---------

Usage Tax		365,221
-----------	--	---------

Tangible Personal Property Tax		796,360
--------------------------------	--	---------

Other-

Fish and Game Licenses		71
------------------------	--	----

Occupational Licenses		3,903
-----------------------	--	-------

Beer and Liquor Licenses		3,900
--------------------------	--	-------

Notary Fees		1,216
-------------	--	-------

Deed Transfer Tax		7,363
-------------------	--	-------

Delinquent Tax	92,759	1,783,157
----------------	--------	-----------

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		6,630
---------------------------------	--	-------

Real Estate Mortgages		4,739
-----------------------	--	-------

Chattel Mortgages and Financing Statements		25,542
--	--	--------

Powers of Attorney		765
--------------------	--	-----

All Other Recordings		30,045
----------------------	--	--------

Charges for Other Services-

Candidate Filing Fees		2,770
-----------------------	--	-------

Copywork	1,949	72,440
----------	-------	--------

Other:

Miscellaneous	9,805	
---------------	-------	--

Postage	105	9,910
---------	-----	-------

Interest Earned		60
-----------------	--	----

Total Revenues		1,964,308
----------------	--	-----------

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
 RENEE ARNETT SHEPHERD, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 399,870

Usage Tax 353,838

Tangible Personal Property Tax 286,293

Licenses, Taxes, and Fees-

Delinquent Tax 10,563

Legal Process Tax 9,296

Miscellaneous 11,850 \$ 1,071,710

Payments to Fiscal Court:

Tangible Personal Property Tax 89,586

Delinquent Tax 21,269

Deed Transfer Tax 7,136

Beer and Liquor Licenses 3,705 121,696

Payments to Other Districts:

Tangible Personal Property Tax 387,417

Delinquent Tax 37,829 425,246

Payments to Sheriff 1,275

Payments to County Attorney 10,711

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 118,323

Employee Benefits-

Employer's Share Social Security 14,268

Employer's Share Retirement 23,235

Employer's Paid Health Insurance 13,571

Contracted Services-

Fish and Game

Xerox 1,679

Printing and Binding 2,776

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
 RENEE ARNETT SHEPHERD, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Materials and Supplies-			
Office Supplies	\$	8,610	
Other Charges-			
Conventions and Travel		1,357	
Dues		660	
Postage		2,653	
Miscellaneous		4,532	
Refunds		3,682	
Bad Checks		2,658	
Libraries and Archives Grant		19,811	
Capital Outlay-			
Office Equipment		10,124	
Deed Room Maintenance		3,828	
		<u>3,828</u>	\$ 231,767
Total Expenditures			<u>\$ 1,862,405</u>
Net Revenues			101,903
Less: Statutory Maximum			<u>72,324</u>
Excess Fees			29,579
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		<u>2,647</u>	<u>6,247</u>
Excess Fees Due County for 2009			23,332
Payment to Fiscal Court - March 16, 2010			<u>13,654</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 9,678</u>

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, any obligation permitted by KRS 41.240(4).

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Magoffin County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Magoffin County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009
(Continued)

Note 4. Libraries and Archives Grant

The Magoffin County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$19,807. In addition, the Clerk received \$4 in interest. Funds totaling \$19,811 were expended during the year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles E. Hardin, Magoffin County Judge/Executive
The Honorable Renee Arnett Shepherd, Magoffin County Clerk
Members of the Magoffin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Magoffin County Clerk for the year ended December 31, 2009, and have issued our report thereon dated August 13, 2010. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Magoffin County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comment and recommendation that we consider to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Should Strengthen Internal Control Weakness



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County Clerk's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Magoffin County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Magoffin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 13, 2010

COMMENT AND RECOMMENDATION

MAGOFFIN COUNTY
RENEE ARNETT SHEPHERD, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The County Clerk's Office Should Strengthen Internal Control Weakness

The County Clerk collects cash, prepares daily checkout sheets and deposit tickets, posts all transactions to both the receipts and disbursements ledgers, reconciles the bank account and prepares all financial reporting. Had properly designed internal controls procedures been implemented, the financial statements would not have been misstatement and the Clerk would have detected the misstatement. The Clerk should implement the following control procedures:

- The Clerk should ensure that the daily checkout sheet, deposit ticket, and receipts ledger agree each business day. At the end of each business day the total receipts collected should be reconciled to the daily checkout sheet and any differences should be noted on the checkout sheet. In addition, all receipts should be included on the daily checkout. Auditor found instances that the Clerk did not included all receipts on the daily checkout sheet.
- The Clerk should reconcile the receipts and disbursements ledger to the bank on a monthly basis. The Clerk's reconciliation should be the cash balance in the bank is adjusted for reconciling items the ending cash balance should agree to the cash balance per the books for the month being reconciled.
- An independent person of all accounting functions should review the Clerk's bank reconciliation for accuracy. The person performing the review should trace deposits in transit and outstanding checks to the next month's bank statement to ensure the reconciling items are correct. The person performing this review should initial the reconciliation to document that these procedures have been performed. In addition, an independent person should agree the daily checkout sheet, bank deposit, and receipts ledger to each other. The person performing this review should initial these documents that these procedures have been performed.

County Clerk's Response: Will do.

